

Journal of Strategic Management



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ISSN: 2616-8472

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How to cite this article: Kairu, H., N. & Kibe, L., W. (2022). Analysis of Product Differentiation on the Performance of Supermarkets in Nairobi City County, Kenya. *Journal of Strategic Management*, 6(6), 97-111. <https://doi.org/10.53819/81018102t6044>

Abstract

The rapidly changing Kenya market creates challenges for retail stores to retain their customers and build new competitive strategies against modern retailing. The study sought to analyze the influence of product differentiation strategy on the performance of supermarkets in Nairobi, to evaluate how cost leadership affect performance of supermarkets in Nairobi. The target population consisted of 147 managers and supervisors from the 7 main supermarkets in Nairobi City County. Primary data was collected using a semi—structured questionnaire and the data was analyzed using SPSS. Descriptive and Inferential statistics were used to analyze the data. The study used a multiple regression model to show the relationship between the study variables. The results obtained were represented on tables, charts and graphs. The findings revealed an R squared of 0.696 and adjusted R squared of 0.663 at 95% significance level, implying that the competitive strategies adopted in this study explained 69.6 percent of the variation in performance of supermarkets in Nairobi City County. The study also found that product differentiation strategy as an aspect of competitive strategies had a positive and significant effect on the performance of supermarkets in Nairobi ($\beta = .357$, $p = .029 < .05$). The study concluded that product differentiation as a competitive strategies adopted had positive and significant effect on the performance of supermarkets in Nairobi. The study thus recommended that the supermarkets in Nairobi City County should consider fully implementing competitive strategies such as product differentiation as ways of enhancing their performance.

Keywords: *Product Differentiation, Performance, Supermarkets, Competitive Strategies*

1.1 Background of the Study

The quick changes in business environment present challenges in strategic management. Strategic options need to for that reason be formed to be according to the setting in which a certain firm runs. The advancement of a suitable method includes different sights on the means through which strategy can be created by a firm. At first, creating a customer base was considered as the sole purpose of a business organization, nevertheless, presently client retention is ultimately regarded due to the fact that companies have welcomed the fact that client base is not limitless. According to Hendriyani and Auliana (2018), it is 5 times extra pricey to gain a brand-new customer than to preserve an existing consumer. The costs of procurement are nevertheless reduced in the long run which suggests that the expense of retention straight relates to the productivity of the company (Alkitbi, Alshurideh, Al Kurdi & Salloum, 2020).

Mwenda (2020) states that organizations need techniques to allow them overcome the competitive difficulties they encounter in their operating atmosphere. A competitive strategy consequently allows a business to progress a competitive advantage over its competitors and withstand its achievement in the market. A company that does not have ideal approaches cannot manipulate the leads existing in the market and also will certainly fall short. A method is hence an essential facet for success in any market and also company requires to craft it reasonably to guarantee great fit within the operating environment. Bischooping and King (2019) defined competitive method as the pursuit for an adequate affordable locus in an industry; the main arena in which competition takes place. In addition, he explains that affordable technique looks for to establish a financially rewarding and also justifiable position against the forces that manages industry competitors. This consists of identifying resources of competition in the quickly changing setting after that advancing strategies that match business skills to the variants in the environment. According to Concierge, affordable approach has to do with being different. This means deliberately carrying out tasks in a different way as well as in better methods than rivals. Competitive method involves all those methods that a service has and is taking to attract buyers, sustain competitive pressure and also developments its market locus (Spinelli, Nelson-Becker & Ligossi, 2019). It includes what an organization is doing so regarding acquire a feasible competitive advantage.

Competitive strategy includes all those techniques that a firm has and is requiring to draw in buyers, survive affordable stress and development its market placement (Elmi, 2021). A service establishes a competitive advantage when it crafts a side over its competitors in drawing in brand-new customers and protecting them against affordable pressures (Elmi, 2021). Competitive advantage on the other hand can be defined as the edge a company has more than the others in the industry (Darmawan & Grenier, 2021). The option of strategy that will certainly be presumed by a company depends upon the appeal of the industry and also the competitive locus of business (Stead & Stead, 2019). A company in a really striking sector might not obtain revenues if it has picked the wrong technique and also contrariwise, a business in a superior affordable placement might remain in a robbed industry that is not financially rewarding.

Retail businesses are operating in a dynamic environment especially during and after the Covid-19 pandemic as a result of disruptions in availability and prices of labour as well as disruptions in the global supply chain (Sharma, Luthra, Joshi & Kumar, 2021). This has compelled such businesses to anticipate any uncertainty in future by crafting sustainable response strategies. However, good strategic responses are partly down to the risk it entails since the strategic response is based on the attitude towards risk (Pantano, Pizzi, Scarpi & Dennis, 2020). In the retail industry, the retail chains continue to adopt coping strategies when faced by different challenges (Liu &

<https://doi.org/10.53819/81018102t6044>

Atuahene-Gima, 2018). Consequently, they were all competing for the same customers' loyalty and preference to remain in business. This is despite the upcoming residential estates around Nairobi that has significantly increased the city's population. There is inadequate literature on the application of competitive strategies in the Kenya retail industry and particularly on product differentiation. This study sought to explore the forces that shape the retail industry in Kenya to give its management have a wider competitive horizon. The study focused on the retail industry and mainly on supermarkets in Nairobi, Kenya.

1.2 Statement of the Problem

The Kenyan retail business remains turbulent hence requires rapid response strategies for sustainable business competition and survival. Close to 50% of all retail stores fail within the first few years of operation (Mutinda & Mwasiaji, 2018). There is stiff competition in Kenya's retail sector and certain superstores have performed poorly with regards to their profit levels and this has resulted in poor business which eventually leads to closure and a reduction in the number of branches. According to Karimi and Waruguru (2018) supermarkets in Kenya operate in a very turbulent and competitive sector. In addition to this, the performance of supermarkets faces challenges such as poor management, poor logistics in terms of inventories and the supply chain process as well as competition from other retailers both local and international franchises venturing into the Kenyan sector (Abbas, 2021). These challenges have resulted in poor performance of supermarkets in Kenya and this has derailed the entire retail sector and consequently the economy as a whole through losses of jobs throughout the supermarket value chain (Mwakio & Awuor, 2018).

In recent years, some of the most iconic Kenyan Supermarkets such as Nakumatt, Tuskys, Ukwala and Uchumi have shut down indicating that the performance of big supermarkets in Nairobi and Kenya in general has suffered in recent times. Competitive strategies enable firms to achieve internal efficiency, improved quality of products hence meeting customers' expectations. According to Diba and Omwenga (2019), this could lead to distinct capability of a firm in the market. Thus, adoption of competitive strategies might warrant the retail stores distinct capabilities, hence improved competitiveness. Previous studies have been conducted on other competitive strategies and in other industries therefore creating gaps that the study sought to fill. The study will seek to fill these gaps and will therefore seek to assess the influence of product differentiation as a competitive strategy on the performance of supermarkets in Nairobi City County, Kenya.

1.3 Objective of the Study

The objective of the study was to assess the influence of product differentiation on the performance of supermarkets in Nairobi City County, Kenya.

2.1 Theoretical Review

The study was guided by Porter's Theory of Competitive Advantage.

2.1.1 Porter's Theory of Competitive Advantage

Porter's Theory of Competitive Advantage was pioneered by Porter (1985) and views the essence of competitive strategy formulation as relating a company to its environment. The theory cites the key aspect of the firm's environment as the industry or industries in which it competes (Lau, 2012).

This is because the industry structure strongly influences the competitive rules of the game as well as the strategies potentially available to firms.

The Porter's Theory of competitive advantage entails identifying commonly recurring settings and observing how different structures, strategies and behavioural processes fare in each setting (Emery & Trist, 2015). Prominent Porter's Theory has been proposed and tested relating to organizational environments, characteristics and structures, competitive conditions and organizational strategies and organizational characteristics and behavioural processes (Hofer, 2015; Meilich, 2013). Meilich (2013) conceived of complex organizations as open systems faced with uncertainty that are, at the same time, subject to a rationality criterion. He argued that differences in technological and environmental dimensions result in differences in structures, strategies and decision processes. Hambrick (2013) argues that Porter's Theory is particularly useful for competitive strategy because strategy is an art and an approach, which lacked generality and appropriateness of strategy, should emphasize contextual differences.

In differentiation, an enterprise provides unique goods or services to its target market. It can achieve this through customer service, innovation or the quality of products being produced. This gives it an advantage over the competitors. In market focus strategy, an enterprise understands and satisfies its target market.

2.2 Empirical Literature

Narula, Rana, Srivastava and Kharub (2021) explored the relationship between market orientation and market capabilities as a differentiation strategy on firm performance. The study adopted an intensive case study and selected a public sector firm. The study found that market orientation is highly effective in building different marketing and the sustenance of performance. A conceptual gap exists because the study focused only on market orientation as a differentiation strategy rather than differentiation in general.

According to Maumbe and Chikoko (2022), despite the country's unpredictable financial climate, supermarkets have increased in Zimbabwe. According to the report, foreign investors find Zimbabwe to be relatively appealing. The advent of global, regional, and local business chains, as well as improved urbanization and a rise in consumerism, are driving the expansion. Because of the macroeconomic and policy uncertainties, the supermarket industry in Zimbabwe is unlike any other in Africa. Supermarkets face obstacles such as the exclusion of small farmers, sophisticated procurement processes, and the difficulty of functioning in a harsh climate, including energy shortages, hyperinflation, and infrastructure deficiencies. The study was conducted in Zimbabwe and therefore constitutes a conceptual gap.

Ferdinand (2012) carried out a study on the competitive strategies applied by Tesco Company in the UK. This study was carried on 230 employees in the various departments of the company. He noted that the company was positioned to capitalize on a value proposition which emerged from their low-cost emphasis. They also found that the company typically market focused their efforts on value-oriented customers in the market. The results found that value products are market focused on providing value-oriented customers with products that are indeed value-for-money, relative to competitive offerings. Given the study was conducted in the UK then it presents a contextual gap.

Kobia (2018) sought to investigate the effect of differentiation strategy on the performance of Bata Shoe Company in Nairobi. Descriptive and inferential analysis showed that differential strategy through branding, product development and customer service affected the performance positively. The study recommended that the company should intensify efforts in product development and design as well as in product branding and packaging. It provides a contextual gap since the study was conducted on Bata Shoe Company rather than supermarkets.

Mutinda and Mwasiagi (2018) noted that competition among supermarkets was intensifying and that the nature of competition was undergoing a change leading to changes in performance that led to anxiety, loss of jobs and revenues. The study sought to determine the effect of competitive strategies on the performance of supermarkets in the county of Machakos. The study was based on the Resource-Based View Theory, the Resource Dependence Theory and Porter's Generic Strategies Model. Empirical literature was reviewed and a descriptive research design was adopted. Descriptive and inferential analysis was conducted on the collected data. The study found that differentiation strategy significantly influenced the performance of supermarkets. Moreover, the products should also be improved and the use of technology be adopted so as to improve service delivery to their customers. Study was conducted in Machakos and therefore offers a contextual gap.

Kirimo (2015) sought to establish the effect of product differentiation in response to changes in rice demand patterns in Kenya. Primary data was collected from the respondents using questionnaires, coded and edited for completeness and accuracy before being analyzed using Statistical Package for Social Scientists (SPSS). The data was represented in the form of tables. The study revealed that product differentiation using innovation, quality, packaging collectively contributed to 65% of the organization's performance. The researcher recommended that product differentiation was important for organization performance and therefore should be applied wholly. The study focused on rice demands and therefore constitutes a contextual gap.

Atalaya and Fulya (2013) examined the relationships between product innovation and firm performance. The survey of this study is conducted on top level managers of 113 firms operating in the automotive supplier industry which is one of the most innovative industries in Turkey, as of the year 2011. The obtained data from the questionnaires are analyzed through the SPSS statistical package program. Analysis results demonstrated that technological innovation (product and process innovation) has significant and positive impact on firm performance, but no evidence was found for a significant and positive relationship between product innovation and firm performance. The study was conducted in Turkey and as such constitutes a contextual gap.

2.3 Conceptual Framework

The conceptual framework provides a figurative description of the independent and dependent variables in the study.

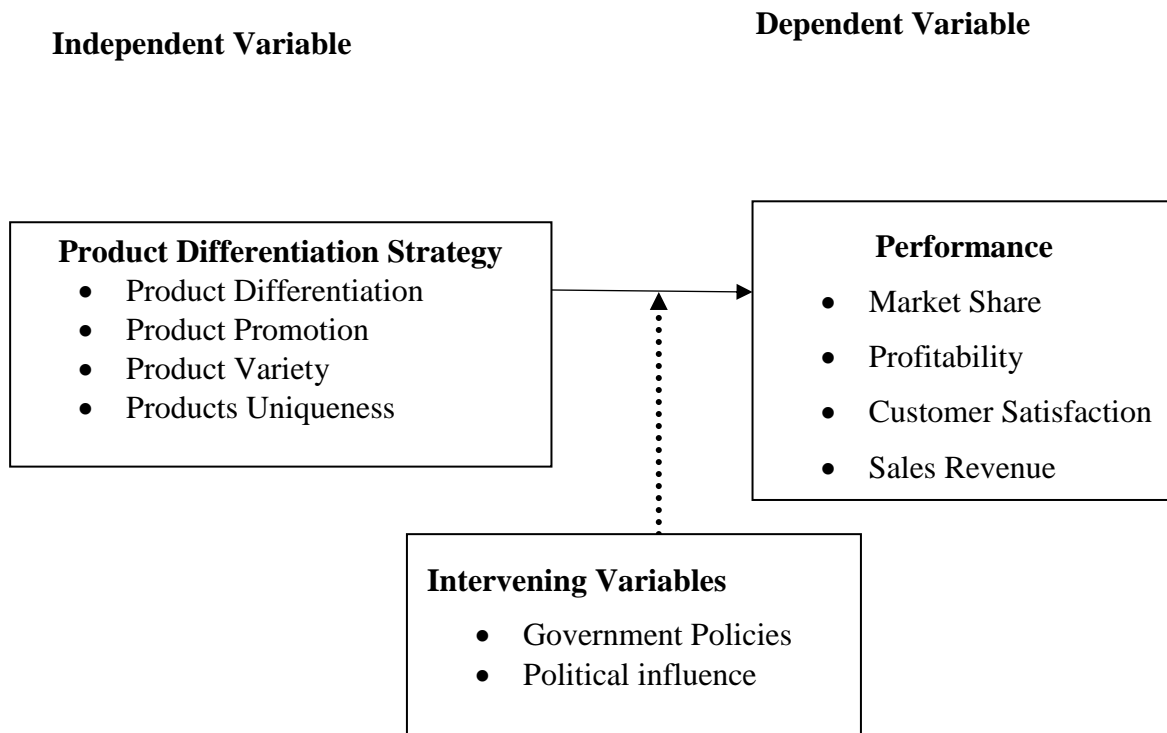


Figure 1: Conceptual Framework

The independent variable in the study was product differentiation strategy. Product differentiation refers to the marketing of generally similar products with minor variations that are used by consumers when making a choice. In the study, product differentiation was indicated by differentiation of products, the promotion of products, variety as well as the uniqueness of products. The dependent variable was the performance of supermarkets in Nairobi County. Performance refers to the success of a business as well as its level of achieving business objectives in terms of revenues, annual sales and firm size. Performance was measured by market share, levels of profitability, customer satisfaction and revenue of sales. The study used government policies and political influence as the intervening variables.

3.0 Research Methodology

The research design that was adopted for this study was descriptive research design because it allowed the researcher to study phenomena and not to manipulate variables as noted by Kombo & Tromp (2006). The unit of analysis in the study consisted of top managers, mid-level managers and supervisors from each of the 7 major supermarkets in Nairobi City County. The 7 largest supermarkets in terms of revenue and market share were Quickmart, Cleanshelf, Game Stores, Chandarana Foodplus, Eastmatt, Carrefour and Naivas (KEPSA, 2021). These managers and supervisors were chosen as the target population because they were well positioned to respond effectively to the study questions.

Table 1: Target Population

Supermarket	Senior Management	Middle management	Supervisors	Total
Naivas	6	8	14	28
Quickmart	3	6	8	17
Cleanshelf	3	6	8	17
Game Store	4	8	12	24
Chandarana	5	8	9	22
Eastmatt	2	4	8	14
Carrefour	5	8	12	25
Total	28	48	71	147

Source: Researcher (2022)

Since the target population was small, the entire population of 147 top, middle, and supervisors was used in the study to make the sample more representative. As a result, the sample size was 147 people. The researcher used questionnaires as the data collection tool. The questionnaires featured structured questions that provide quantitative data for statistical analysis. On the other hand, open ended questions generated qualitative data for content analysis. A pilot study was conducted to establish the reliability and validity of the questionnaire.

The study applied both qualitative and quantitative approaches for data analysis. Qualitative data was analyzed through content analysis and presented in form of explanatory notes while quantitative data, was analyzed through descriptive statistics such as frequencies, percentages, means and standard deviations and presented in the form of tables and charts. The study also employed a multiple linear regression analysis to establish the relationship between the independent and the dependent variables. The multiple linear regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:

Y = Performance,

X₁ = Product Differentiation

β₀ = Intercept coefficient.

While β₁ is the coefficient of X₁ variables and ε is the error term.

4.0 Findings and Discussions

This section discusses the data analysis as well as the interpretation of the findings. The general objective of the study was to determine the influence of product differentiation on the performance of supermarkets in Nairobi City County, Kenya.

<https://doi.org/10.53819/81018102t6044>

4.1 Descriptive Statistics

In this section, the study discusses the descriptive statistics of product differentiation strategy and performance of supermarkets in Nairobi County Kenya. Based on the study questionnaire, the numbers 4 and 5 (Agree and Strongly Agree) were grouped together as agree, 1 and 2 (Strongly disagree and Disagree) were grouped together as disagree while 3 was neutral.

4.1.1 Product Differentiation Strategy

The study’s first objective was to determine the effect of product differentiation strategy on the performance of supermarkets in Nairobi. The respondents were asked to indicate their level of agreement with statements on product differentiation strategy and the results are as depicted in Table 2.

Table 2: Product Differentiation Strategy

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation
The supermarket adopts product strategy in order to enhance its competitiveness	20.40%	31.70%	28.90%	12.00%	7.00%	3.465	1.153
Promoting a product enables us to improve sales and performance of the Supermarket	30.30%	33.80%	21.80%	7.00%	7.00%	3.732	1.172
Having a Variety of products improves the performance of the Supermarket	35.20%	33.10%	24.60%	6.40%	0.70%	4.007	0.879
The Uniqueness of our products improves our performance	43.00%	27.50%	27.50%	0.70%	1.40%	4.099	0.925

Source: Researcher (2022)

Based on the results most (52.10%) of the respondents agreed that their supermarket adopts product strategy in order to enhance its competitiveness, 19.00% disagreed with the statement, while 28.90% were unsure of what to say. The results had a mean of 3.465 and standard deviation of 1.1.53. This implies that most of the respondents agreed with the statement and that the responses did not vary greatly from the mean. In addition, the findings revealed that a majority (64.10%) of the respondents were in agreement with the statement that promoting a product enables them to improve sales and performance of their Supermarket while 14.00% disagreed with the statement. This was backed by a mean and standard deviation of 3.732 and 1.172 respectively. Moreover, the results show that most (68.30%) of the respondents agreed that having a variety of products improves the performance of the Supermarket. 7.10% of the respondents disagreed and

<https://doi.org/10.53819/81018102t6044>

this was affirmed by a mean of 4.007 and standard deviation of 0.879. Finally, the results established that most (70.50%) of the respondents were in agreement with the statement that the uniqueness of their products improves their performance as seen by a mean and standard deviation of 4.099 and 0.925 respectively. Overall, the responses to product differentiation strategy had a mean of 3.826 and a standard deviation of 1.032. This implies that most of the respondents involved in the study were in agreement with product differentiation strategy as a competitive strategy and that the responses did not vary greatly from the mean.

4.1.2 Performance of Supermarkets

In this study, the dependent variable was performance of supermarkets in Nairobi. The respondents were asked to indicate their levels of agreement or disagreement with the statements on the performance of supermarkets in Nairobi. The results are as presented in Table 10 below.

Table 3: Performance of Supermarkets

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation
Our market share has been growing significantly in the recent past	24.60%	32.40%	35.20%	5.60%	2.10%	3.718	0.970
The profit levels of our supermarket have increased over time.	24.60%	35.90%	30.30%	4.90%	4.20%	3.718	1.027
Our customers are satisfied with our products and our services.	36.60%	35.90%	19.70%	4.90%	2.80%	3.986	1.010
We have been able to realize more sales lately.	23.20%	35.90%	29.60%	9.20%	2.10%	3.690	0.998
We have increased the number of our branches.	29.60%	24.60%	32.40%	5.60%	7.70%	3.627	1.189

Source: Researcher (2022)

The study results showed that most (57.00%) of the respondents agreed that their market share has been growing significantly in the recent past as shown by the mean of 3.718 and standard deviation of 0.970. Additionally, the results also revealed that majority (60.50%) of the respondents were in agreement that the profit levels of their supermarket have increased over time. This was affirmed by a mean of 3.718 and standard deviation of 1.027. Moreover, the results above also showed that most (72.50%) of the respondents were in agreement with the statement that their customers are satisfied with our products and our services. This was further confirmed by a mean and standard deviation of 3.986 and 1.010 respectively. The study further revealed that majority (59.10%) of the respondents agreed that they have been able to realize more sales lately as confirmed by a mean of 3.690 and standard deviation of 0.998. Finally, the results of the study also showed that most (54.20%) of the respondents agreed that they have increased the number of their branches (Mean=3.627, SD=1.189). An overall mean and standard deviation of 3.748 and 1.039 respectively indicate that most of the respondents agreed that the supermarkets have had an increase in performance and that the responses did not vary greatly from the mean.

4.2 Inferential Statistics

Inferential statistics in the current study focused on correlation and regression analysis. Correlation analysis was used to determine the strength of the relationship while regression analysis was used to determine the relationship between dependent and independent variables.

4.2.1 Correlation Analysis

The present study used Pearson correlation analysis to determine the strength of association between independent variables product differentiation and the dependent variable performance of supermarkets. Pearson correlation coefficient range between zero and one, where by the strength of association increase with increase in the value of the correlation coefficients.

Table 4: Correlation Coefficient

		Performance	Differentiation
Performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Product Differentiation Strategy	Pearson Correlation	.705**	1.000
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis results in Table 4 show that there was a strong positive and significant association between product differentiation strategy and performance of supermarkets in Nairobi ($r=0.705$, $p<0.05$) at 5% level of significance. This implies that an improvement in product differentiation strategy by the supermarkets results into an improvement in their performance. The results back the findings of Narula, Rana, Srivastava and Kharub (2021) who found that product differentiation strategy was highly effective in building different marketing and in sustaining performance.

4.2.2 Regression Analysis

Bivariate regression analysis was used to assess the relationship between independent variable and the dependent variable. This section provides regression results on the effect of product differentiation and the performance of supermarkets in Nairobi City County. The model summary, ANOVA and regression of coefficient results are presented in Tables 5, 6 and 7 respectively.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.823a	0.696	0.663	0.473987

a Predictors: (Constant), Product Differentiation strategy

Source: Field Data, 2022

The results in Table 5 show that the coefficient of determination (R squared) is 0.696 and adjusted R squared of 0.663 at 95% significance level. The R squared of 0.696 implies that (Product

Differentiation strategy explains 69.6 percent of the variation in performance of major supermarkets in Nairobi. The remaining 30.4 percent of the variation in the dependent variable can be explained by other factors which were not included in the current study.

Table 6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.8	1	7.95	25.149	.000 ^b
	Residual	12.539	50	0.267		
	Total	44.339	51			

- a. Dependent Variable: Performance
- b. Predictors: (Constant), Product Differentiation strategy

Source: Field Data, 2022

Table 6 presents the ANOVA results. The results show that the model was statistically significant in explaining the influence of product differentiation on the performance of supermarkets in Nairobi City County and this is indicated by the p-value of $0.000 < 0.05$.

Table 7: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-0.137	0.376		-0.364	0.709
	Product Differentiation Strategy	0.357	0.129	0.31	2.767	0.029

- a. Dependent Variable: Performance

Source: Field Data, 2022

The regression model therefore became;

$$Y = -0.137 + 0.357X_1$$

Where:

Y= Performance

X₁= Product Differentiation strategy

Regression coefficients in Table 7 show that product differentiation strategy as an aspect of competitive strategies had a positive and significant effect on the performance of supermarkets in Nairobi ($\beta = .357$, $p = .029 < .05$). This was supported by a calculated t-statistic of 2.767 that was greater than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in product differentiation strategy results into an improvement in performance by 0.357 units. The result further implies that product differentiation strategy as an aspect of competitive strategies significantly affects the performance of supermarkets in Nairobi. These findings are in line with the study conducted by Mutinda and Mwasiagi (2019) who found that differentiation strategy as a competitive strategy significantly influenced the performance of supermarkets.

5.0 Conclusion

The study concluded that product differentiation strategy had a positive and significant effect on the performance of supermarkets in Nairobi. Product differentiation strategy encourages customers to choose a supermarket brand or franchise over their competitors. This can be done through promoting the different products on offer and having variety that customers can choose from. This can also be done by seeking unique products that customers cannot find from their competition. By offering a different product from the market, supermarkets are able to be more competitive in the market. It is therefore important for supermarkets to adopt product differentiation strategy in order to be more competitive in the retail market. In addition, the study concluded that cost leadership strategy has a positive and significant effect on the performance of supermarkets in Nairobi. By adopting economies of scale, supermarkets are able to minimize costs and maximize on their institutional capacity. Moreover, the supermarkets can minimize costs by using the links and relationships with stakeholders such as suppliers, manufacturers and others in the value chain of goods sold by the supermarket. Supermarkets should employ cost-leadership strategy so as to enhance competition and consequently performance of supermarkets in Nairobi.

6.0 Recommendations

The study recommendations are in line with the study variables, findings and conclusions of the study. The study concluded that product differentiation strategy had a positive and significant effect on the performance of supermarkets in Nairobi. Product differentiation strategy encourages customers to choose a supermarket brand or franchise over their competitors. This can be done through promoting the different products on offer and having variety that customers can choose from. This can also be done by seeking unique products that customers cannot find from their competition. By offering a different product from the market, supermarkets are able to be more competitive in the market. It is therefore important for supermarkets to adopt product differentiation strategy in order to be more competitive in the retail market. Based on these findings, the study recommends that supermarkets in Nairobi should seek to adopt product differentiation as a competitive strategy in order to enhance their performance. In particular, supermarkets in Nairobi can promote specific products to improve their sales levels. In addition, supermarkets can increase the variety of products at their stores to give users different choices and finally the supermarket can stock up on unique items as a way of staying ahead of their competition.

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